

# **Report of the auditor-general to Gauteng Provincial Legislature and the council on the West Rand District Municipality**

## **Report on the audit of the financial statements**

### **Opinion**

1. I have audited the financial statements of the West Rand District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement, statement of comparison of budget and actual amounts and the appropriation statement for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the West Rand District Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practices (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA) and Division of Revenue Act, 2017 (Act No. 3 of 2017)(Dora).

### **Basis for opinion**

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Material uncertainty relating to financial sustainability**

6. I draw attention to note 46 to the financial statements, which indicates that the municipality incurred a net loss of R95 106 462 during the year ended 30 June 2018 and, as of that date the municipality's current liabilities exceeded its current assets by R151 101 956. As stated in note 46, these events or conditions, along with other matters as set forth in note 46, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

### **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

8. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors discovered in the financial statements of the municipality for the year ended 30 June 2018.

### **Material uncertainty**

9. With reference to note 41 in the financial statements, the municipality is the defendant in a number of lawsuits. The outcome of these matters cannot presently be determined and/or reliably measured; therefore, no provision for any liability that may result has been made in the financial statements.

### **Other matter**

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited disclosure note**

11. In terms of section 125(2) (e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion on it.

### **Responsibilities of accounting officer**

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP, the requirements of the MFMA and the Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
13. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

14. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
15. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance area's presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
17. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area's presented in the annual performance report of the municipality for the year ended 30 June 2018:

Key performance area	Pages in the annual performance report
Key performance area 11 – Reduced unemployment	x – x
Key performance area 12 – Economic development	x – x

19. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not raise any material findings on the usefulness and reliability of the reported performance information for these key performance area's:
  - Key performance area 11 – Reduced unemployment
  - Key performance area 12 – Economic development

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

21. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
22. The material findings on compliance with specific matters in key legislations are as follows:

#### **Asset management**

23. Investments were not made in accordance with the requirements of the investment policy (part 6: investment principles), as required by municipal investment regulation 3(3).
24. Funds were invested in VBS Mutual Bank, in contravention of municipal investment regulation 6.

#### **Expenditure management**

25. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.

## **Other information**

26. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the accounting officer report and the audit committee's report. The other information does not include the financial statements, the auditor's report thereon and those selected key performance area's presented in the annual performance report that have been specifically reported on in the auditor's report.
27. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
28. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance area's presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
29. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## **Internal control deficiencies**

30. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to

the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

31. The accounting officer did not always exercise oversight on internal controls relating to investment and expenditure management. This resulted in non-compliance with key laws and regulations.
32. Senior management did not always ensure that sufficient monitoring controls on compliance were adhered to. This resulted in non-compliance with laws and regulations relating to investment and expenditure management.

#### **Other reports**

33. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
34. The Gauteng Department of Finance has appointed an external service provider to perform a forensic audit into investments made in VBS Mutual Bank. The forensic audit is still in progress at the reporting date.

*Auditor-General*

Johannesburg

30 November 2018



*Auditing to build public confidence*

## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected key performance area's and on the municipality's compliance with respect to the selected subject matters

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the West Rand District Municipality and its subsidiaries ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may

reasonably be thought to have a bearing on my independence and here applicable, related safeguards.